

Idaho Legislative Audits
P.O. Box 83720
Boise, ID 83720-0054
208-334-2475



Department of Health and Welfare

Management Report on Financial Procedures

Issued: October 22, 2001
Fiscal Year: 2000



EXECUTIVE SUMMARY LEGISLATIVE AUDITS

Department of Health and Welfare

PURPOSE AND SCOPE – We have completed certain financial audit procedures on the Department of Health and Welfare's financial activities which occurred during the fiscal year ended June 30, 2000. The procedures completed at the Department of Health and Welfare, as well as other procedures performed at other State agencies, allow us to express our opinion on the statewide general-purpose financial statements prepared by the State Controller's Office. Because major federal programs were present, appropriate procedures and required tests were made in order to issue the federally required *Single Audit*.

CONCLUSION – This report contains 16 recommendations which, if implemented, could increase program recoveries, improve safeguards over sensitive client data, and improve the accuracy and efficiency of assistance provided to clients. Recommendations were also made to improve various controls over trust accounts and fixed assets, and enhance compliance with laws, rules and federal regulations. Based on our limited procedures applied, we conclude that the financial operations of the Department of Health and Welfare meet acceptable standards. Further, the Department is in substantial compliance with laws, regulations, rules, grants, and contracts for which we tested compliance.

The prior report contained eleven recommendations. The Department has taken action on seven, resulting in improved procedures for evaluating questionable Medicaid costs, establishing strategic plans for maximizing child care funding, and restoring accountability within the immunizations program. Additional efforts are needed on the remaining four recommendations, primarily completion of adjustments to the Child Support Enforcement Program's management structure, financial integrity project, and time frames for delivering enforcement services. We continue to encourage the Department to implement these prior recommendations.

FINDINGS AND RECOMMENDATIONS – This report contains 16 recommendations which relate to Medicaid, child support, child care, and various accounting and control procedures. The following summarizes these issues:

1. Millions in birth costs paid by Medicaid are not pursued from absent parents.

Virtually no efforts have been taken since July 1999 to recover birth costs or other Medicaid benefits through the Child Support Enforcement Program. Federal regulations require the Department's Medicaid and child support programs to coordinate these recoveries. However, no formal process or lines of communication currently exist between these two programs. The informal process prior to July 1999 was stopped due in part to increased case loads and a lack of incentives for the child support program to pursue these amounts.

We estimate that Medicaid paid more than \$10 million in birth costs during FY 00, a substantial portion of which could be recovered from absent parents.

We recommend that the Department establish formal processes within the Medicaid program to coordinate the recovery of Medicaid benefit costs from absent parents through the Child Support Enforcement Program.

2. Insufficient safeguards are in place to limit access to child support data.

As of December 2000, at least 250 employees and others outside the Child Support Enforcement Program could alter data in the child support system. No procedures currently exist to evaluate whether each individual's access to child support data is necessary or appropriate. As a result, inappropriate access or changes to data could occur and go undetected. Our limited analysis indicates that procedures to safeguard data in other automated systems of the Department are also not properly established.

We recommend that the Department evaluate the access of all employees to child support data, monitor access to identify unauthorized changes or use, and evaluate other systems to ensure that appropriate safeguards are in place.

3. Medicaid overpayments are not returned to the federal grantor within the required 60 days.

Federal regulation requires the Department to return the federal share of provider overpayments to the program within 60 days of discovery. These funds must be returned even if the Department has not yet collected the overpayment from the provider.

The federal share of more than \$3 million in overpayments has not been returned as required. These overpayments are not tracked or returned until collected, which can be beyond 60 days. There is no effort to comply because the process is complex and the Department believed the amounts were immaterial. Delays in returning these amounts can result in sanctions by the federal grantor.

We recommend that the Department identify all overpayments and return the federal share to the program within 60 days.

4. Child care benefits are based on inaccurate income data.

Income is the primary factor in determining child care benefits and, as defined by rule, includes all earned or unearned amounts. Some amounts, such as Temporary Assistance to Needy Families (TANF) and other specific assistance, are specifically excluded. We identified several clients who had TANF benefits improperly included, while others had child support amounts that were either counted or omitted in error. These errors occurred due to misunderstanding of the rules and resulted in benefits being improperly overpaid or underpaid.

We recommend that the Department provide additional training for staff, and that staff include only income defined by rule when determining eligibility and benefit amounts.

5. The calculation of child care benefits is complex and prone to error.

Benefits are based on a sliding fee scale and may include other factors as appropriate. The Department established multiple factors for determining eligibility and benefit amount, including estimates which increase the opportunity for error. Errors in determining eligibility

and need can also occur due to the processes used to pay benefits in advance, resulting in benefits paid in error. Such occurrences would be difficult for clients or staff to identify.

We recommend that the Department reduce the factors for determining benefits and evaluate the process for paying benefits in advance based on estimates.

6. Other funding sources are not pursued as required for the Infants with Disabilities Program.

Federal funds are for use only when other funding is not available. However, efforts to identify or pursue other funding sources, including asking the families served to contribute toward the cost of services, are left to the discretion of the Department's regional offices. These efforts are not coordinated and the costs recovered are not returned to the federal program. The potential exists that program costs could have been avoided or recovered from other sources.

We recommend that the Department develop policies that require other funding sources be pursued and to return recovered costs to the federal program.

7. State share of costs are not monitored or properly reported under the Infants with Disabilities Program.

Annual reports to the federal grantor must show State and local funding which is at least as much as the prior year. The reports submitted by the Department showed no State or local funding, even though State funds are spent on this program. Accounting structure had not been established to separate these costs from other program costs. The absence of separate accountability limits the Department's ability to evaluate the costs and services of this program, or to ensure that federal funds are not used to replace State funding.

We recommend that the Department establish an accounting structure to identify the State's share of costs and include these amounts in the federal reports.

8. Some services under the Social Security Block Grant (SSBG) program may have been improperly funded.

Temporary Assistance to Needy Families (TANF) funds transferred to the SSBG are designated for services to clients with incomes of less than 200% of poverty. TANF funds of \$3.3 million transferred into the SSBG were expended for staff salaries, administrative services, and other related costs through the Department's indirect cost allocation plan. However, no documentation is available to ensure that expenditures charged to TANF funds are for clients who met the income limitation.

Although services under the SSBG program are generally provided to low income clients, no direct documentation is available to ensure that clients served met the income limitation. Because of this lack of documentation, social service costs claimed to the TANF transfer may be unallowable.

We recommend that the Department document client income to ensure that services funded by the TANF transfer are provided to eligible clients.

9. Federal funds distributed to the Department of Juvenile Corrections (DJC) are not monitored.

Federal funds are distributed each year to Department of Juvenile Corrections based on a "memorandum of understanding" which established the annual level of funding and various reporting requirements. However, no steps have been taken to monitor the use of these funds, and the required reports have either not been submitted or are incomplete. As such, the Department of Health and Welfare is unable to ensure that federal funds are used for allowable purposes.

We recommend that the Department monitor expenditures for allowability and ensure that performance reports are properly submitted.

10. The remodel of the Division of Environmental Quality's (DEQ) office space did not comply with the Idaho Code or the Governor's Executive Order.

Idaho Code § 67-5710A and Executive Order 99-6 require specific approvals and supervision of remodeling projects. DEQ remodeled its leased office space in Boise but the required approvals were not obtained. In addition, no formal contract was executed, which exposed the State to additional liability and potential overcharges. The absence of a formal contract may have contributed to the project costing \$380,000, or nearly double the initial estimate.

We recommend that the Department seek an inspection of the remodeled space for safety and loss control as required by Executive Order.

11. Leases are prepaid with no documented benefit to the State.

Rules prescribed by the State Board of Examiners establish when advance payments are allowed. Two building leases were paid in advance with no benefit or discount described in the lease agreements. One of these leases for \$372,000 was paid in advance even though the agreement required monthly payments. The benefits for prepayments, extended periods, or other terms should be documented in lease agreements to provide assurance that Board of Examiners' rules are met.

We recommend that the Department comply with Board of Examiners' rules and document discount terms or other conditions in lease agreements.

12. The annual license fees for the Food Safety Inspection Program are processed inefficiently.

Idaho Code § 39-1607 requires the Department to collect license fees and conduct inspections of food establishments. Fees are collected by the Health Districts and remitted to the Department, and then returned to the Districts when the inspections are done. This process generates unnecessary costs and transactions between the Health Districts and the Department. The code section authorizing the fee is due to "sunset" or expire on July 1, 2002. As such, the opportunity exists to amend the code and either remove the Department from the process or streamline existing procedures.

We recommend that the Department negotiate with the Health Districts to alter the current process and seek legislation to remove the Department's involvement in handling fees.

13. Federal funds for the Substance Abuse Grant, in the amount of \$3 million, were not drawn promptly due to delays in submitting the grant application.

The Substance Abuse Grant funds are available once an application is accepted. An acceptable application for the substance abuse grant was submitted more than ten months late. As a result, federal funds of \$3 million were not drawn promptly, costing the State as much as \$30,000 in lost interest.

We recommend that the Department establish procedures to notify program staff and management when grant applications and awards are late and resolve delays in receiving federal awards.

14. Some trust fund accounts are improperly excluded from receiving interest.

Interest earned on the Health and Welfare Trust Fund should be distributed equitably among the accounts that comprise the balance. However, more than 200 patient and client accounts totaling \$23,000 are excluded from receiving interest. Although most of these are inactive accounts with less than \$10, two are client accounts with balances of more than \$5,000 each that did not receive interest for up to 18 months. Other types of accounts are also excluded from receiving interest and may indicate they are improperly placed in the trust fund.

We recommend that the Department distribute interest to all trust fund accounts and remove those balances that represent operational activities.

15. Adjustments are needed to the accounting practices and statutes of the Children's Trust Fund.

Idaho Code Title 39, Chapter 60, established financial limits and restrictions on the Children's Trust Fund. However, specific accounting data is not readily available to ensure that these limits are met. The code also contains some conflicting and potentially unintended requirements which need evaluation and amendment as appropriate.

We recommend that the Department adjust the accounting structure and seek changes to the Idaho Code to amend conflicting and potentially unintended requirements.

16. Access and controls over the fixed asset records need improvement.

Controls over fixed asset records include limiting access and properly segregating duties. The Department has not maintained proper segregation or supervision of the more than 50 employees who can alter records. In our sample of 24 assets selected from the inventory list, half were not physically located. Although some obvious clerical errors existed in the records, several control weaknesses also contributed to the high number of missing items.

We recommend that the Department improve segregation and oversight of changes to the fixed asset records and limit global access to key administrative and program staff.

PRIOR FINDINGS AND RECOMMENDATIONS – The prior report contained eleven findings and recommendations. The Department has complied with seven of these recommendations and has initiated steps, as outlined below, to resolve the remaining four issues.

Prior Finding #1 – The organization of the Child Support Enforcement Program is fragmented.

We recommended that the Department revise the organizational structure of the Child Support Enforcement Program to improve the delivery of services and comply with federal regulations. The Department hired a Bureau Chief and developed a management plan to address the major improvement opportunities in the program. Also, specialized workgroups developed and presented recommended changes. These changes are in the process of being implemented, beginning in July 2001. **IN PROCESS.**

Prior Finding #2 – Most debt amounts pursued by the Child Support Enforcement Program are incorrect.

We recommended that the Department establish the financial analysis of cases as a higher priority, seek additional resources to reduce case loads per employee, develop training programs, and strengthen controls over debt adjustments. The Department established a formal project to address all of the issues related to the financial aspects of child support casework. A project manager was selected and is assembling a project team and developing a detailed project plan. A "request for proposal" (RFP) to assess the financial records and make recommendations was published June 26, 2001. Bid opening is scheduled for August 2001. **IN PROCESS.**

Prior Finding #3 – Time frames for providing child support services are missed.

We recommended that the Department provide services to child support clients within the required time frames. Efforts are needed to correct errors in data recorded in "ICSES" to allow the system to properly identify needed services. A formal case evaluation process is needed to ensure that services are provided within the required timeframes. We also recommended that the Department reduce worker case loads to improve the timeliness of services.

The Department hired a Bureau Chief in October 2000. The new Bureau Chief and the Child Support Oversight Committee developed a management plan to address major improvement opportunities in the program. These improvements are to include reducing the size of individual caseloads in each region by centralizing and/or contracting some services and streamlining work processes in other areas of the program. **IN PROCESS.**

Prior finding #4 – Financial activities within the Child Support Enforcement Program are not properly monitored.

We recommended that the Department develop a comprehensive monitoring process and communicate the results to the child support program. The Department should develop monitoring processes for the various transactions generated by the child support program to ensure that funds are properly accounted for and disbursed. We also recommended communicating the results of monitoring to the child support program so that appropriate efforts are taken to correct any deficiencies.

A work group consisting of child support staff from the Division of Welfare and staff from the Division of Management Services was created to identify and resolve the reconciliation problems. This work group continues to identify and resolve reconciliation problems. **IN PROCESS.**

AGENCY RESPONSE – In general, the Department agrees with the findings and recommendations and has initiated corrective actions as described after each finding and recommendation within the body of this report. However, the Department disagrees with finding and recommendation #3 and our conclusion that procedures are not in place to return funds to the federal government for overpayments made to Medicaid providers. The automated process within the Medicaid system establishes an account receivable for providers who are overpaid. However, a secondary process does not exist to return the federal share of every overpayment within 60 days for amounts not yet collected.

FINANCIAL SUMMARY – The procedures completed and described above help us to express our opinion on the fairness of presentation of the statewide *Comprehensive Annual Financial Report (CAFR)*. An opinion is not given on the financial data presented in this *Management Report on Financial Procedures*. However, an opinion is given on all State funds in the *CAFR*, which includes the financial data presented here.

Special revenue funds are used by the Department to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The activity in these funds for the fiscal year ended June 30, 2000, is as follows:

Department of Health and Welfare – Special Revenue Funds

Fund	Fund	Cash at 6/30/1999	Funds Collected	Funds Disbursed	Cash at 6/30/2000
Prevent Access to Tobacco	174	\$16,700	\$53,875	\$12,000	\$58,575
Domestic Violence Project	175	81,272	388,306	348,618	120,960
Cancer Control	176	84,821	391,975	368,166	108,630
Emergency Medical Services	178	326,792	1,890,030	1,636,177	580,645
Medical Assistance	179	0	670	0	670
Central Tumor Registry	181	16,098	156,790	156,600	16,288
Alcohol Intoxification Treatment	182	852,418	2,229,823	2,558,200	524,041
Agricultural Smoke Management	183	41,352	6,398	3,904	43,846
Hazardous Waste Monitoring	184	74	0	74	0
Hazardous Waste Emergency	185	398,571	804,936	368,103	835,404
Idaho Air Quality Permitting	186	2,630,590	1,449,929	1,990,800	2,089,719
Payette Lake Administration	187	9,240	5,000	3,796	10,444
Food Safety	189	67,020	338,285	322,600	82,705
Emergency Medical III	190	0	353,668	0	353,668
Public Water System Supervision	191	0	755,818	0	755,818
Water Pollution Control	200	6,712,012	19,377,653	17,731,500	8,358,165
Environmental Remediation	201	6,505,037	854,649	652,109	6,707,577
Cooperative Welfare	220	12,732,650	899,071,160	911,191,858	611,952
Cooperative Welfare - DEQ	225	2,321,828	32,121,493	32,653,526	1,789,795
Substance Abuse	281	8,987	0	8,987	0
TOTALS		\$32,805,462	\$960,250,458	\$970,007,018	\$23,048,902

Non-expendable trust funds are used to account for assets held in a trustee capacity. For example, the Wastewater Facility Loan Fund is used to make loans to local units of government and receives loan repayments and federal grant funds. The Department's non-expendable trust fund activity for the fiscal year ended June 30, 2000 was as follows:

Department of Health and Welfare – Non-Expendable Trust Funds

Fund	Fund	Cash at 6/30/1999	Funds Collected	Funds Disbursed	Cash at 6/30/2000
Bunker Hill Consent Decree	511	\$954,160	\$1,009,138	\$0	\$1,963,298
Wastewater Facility Loan	529	34,508,043	19,769,759	14,397,655	39,880,147
Drinking Water Loan	532	5,209,638	5,717,433	4,896,220	6,030,851
TOTALS		<u>40,671,841</u>	<u>26,496,330</u>	<u>19,293,875</u>	<u>47,874,296</u>

Expendable trust funds are used by the Department to account for assets held in a trustee capacity. Both the principal and income may be expended for designated purposes. The Department's expendable trust fund activity for the fiscal year ended June 30, 2000 was as follows:

Department of Health and Welfare – Expendable Trust Funds

Fund	Fund	Cash at 6/30/1999	Funds Collected	Funds Disbursed	Cash at 6/30/2000
Endowment Earnings	481	\$624,017	\$4,135,856	\$4,341,132	\$418,741
Children's Trust	483	508,043	74,498	467,789	114,752
Health and Welfare Trust	489	1,646,749	1,289,614	3,200	2,933,163
TOTALS		<u>2,778,809</u>	<u>5,499,968</u>	<u>4,812,121</u>	<u>3,466,656</u>

The operating costs of the Department are summarized in the following expenditure classes. These amounts do not include transfers, pass-through payments, or loans and certain trust fund disbursements.

Department of Health and Welfare – Expenditure Classifications

Category	FY 2000
Personnel Costs	\$162,909,771
Operating Costs	98,802,315
Capital Outlay	5,937,542
Trustee and Benefit Payments	<u>683,505,855</u>
TOTALS	<u>\$951,155,483</u>

OTHER ISSUES – We discussed other immaterial issues with Department officials which, if changed, would improve internal control, ensure compliance, and/or improve efficiency.

This report is intended solely for the information and use of the Department of Health and Welfare and the Idaho Legislature, and is not intended to be, and should not be, used by anyone other than these specified parties.

We appreciate the cooperation and assistance given to us by Karl Kurtz, Director, and his staff.

QUESTIONS CONCERNING THIS DOCUMENT SHOULD BE DIRECTED TO:

Ray Ineck, CGFM, Acting Supervisor, Legislative Audits

Don Berg, CGFM, Managing Auditor